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EX PARTE OR LATE FILED

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June 4, 1999

EX PARTE

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th St. S.W.
Washington, D.C. 20554

Re: CC Docket No. 98-64, CC Docket No. 98-81 and
CC Docket No. 98-177

Dear Ms. Salas:

On June 3, 1999 Guy Cochran, Tim Gowins, Mary Henze and I, representing BellSouth, met with Larry Strickling, Chief of the Commission's Common Carrier Bureau, and members of his staff. The Common Carrier Bureau staff members attending this meeting included: Bill Bailey; Ken Moran; Joanne Lucanik; and Tim Peterson. During the meeting the BellSouth representatives proposed specific changes to Part 32 of the Commission's rules and regulations that BellSouth believes will reduce subject carriers' administrative costs and increase their flexibility without diminishing the Commission's ability to fulfill its statutory responsibilities. The attached documents formed the basis for the BellSouth presentation.


As required by Section 1.1206(b) (2) of the Commission's rules, I am filing two copies of this notice for inclusion in the dockets identified above and ask that you

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associate this notification and the attachments with the records of each of these proceedings.

Sincerely,

A handwritten signature in cursive script that reads "Kathleen B. Levitz".

Kathleen B. Levitz

cc: Larry Strickling (w/o attachments)
Bill Bailey (w/o attachments)
Ken Moran (w/o attachments)
Joanne Lucanik (w/o attachments)
Tim Peterson (w/o attachments)

Proposals for Phase 1 Simplification of Accounting Rules

Part 32

1. Allow the Class A ILECS to move to Class B Chart of Accounts

Section 32.11 currently differentiates between “Class A” and “Class B” companies based on an indexed revenue threshold and requires Class A companies to maintain a Class A chart of accounts. The Class A chart of accounts includes 261 accounts, while the Class B chart has 109.

Previously the Commission has declined to allow large Incumbent Local Exchange Carriers (ILECs) to use Class B accounts because of its concerns about cross-subsidization of services and ensuring compliance with the Telecommunications Act of 1996. However, price cap regulation greatly reduces, if not eliminates, the incentive to use non-competitive services to subsidize competitive services.

Price cap regulation severs the link between accounting costs and rates. Price cap regulation protects ratepayers against cross-subsidization of non-regulated services in a way detailed accounting and cost allocation rules never can. This method of setting rates does not allow carriers to pass through increases in booked cost to ratepayers. Therefore, the use of company size to measure of the risk that ratepayers will cross-subsidize competitive services and thus to justify continuation of Class A accounting requirements is no longer reasonable. The cost of maintaining the detail required by the Class A chart of accounts outweighs its benefits.

Section 11 of the 1996 Act directs the Commission to “repeal or modify any regulation it determines to be no longer necessary in the public interest.” Consistent with that mandate, the Class A accounting requirement for carriers under price regulation should be eliminated and those carriers should be permitted to use the Class B chart of accounts. Regardless of the chart of accounts used, the carriers’ books will continue to provide the financial information required for ARMIS reporting and Part 36 separations.

2. Other Part 32

Eliminate The Expense Matrix

Under Section 32.5999(f), Telecommunications carriers must identify the amount in each Part 32 expense account (61xx-67xx) attributable to salaries and wages, benefits, rents, other expenses, and clearances. The Commission should simplify Part 32 by eliminating the expense matrix categories this section prescribes. The business needs of companies operating in a competitive environment should determine the level at which they track expenses. Allowing ILECs the flexibility to design their management accounting systems to fit their business needs fosters efficiency and competition. Tracking cost by

expense matrix category does not appear to provide any benefit under the current regulatory paradigm of price regulation.

Nonregulated Revenue

Section 32.5280 (c) requires incumbent ILECs to maintain a separate subsidiary record category for each nonregulated revenue item associated with nonregulated activities as defined in Section 32.23. This requirement results in additional cost to companies, with minimal regulatory benefit, and should be eliminated. Management needs should determine revenue classification at the product level.

3. GAAP Conformity

Plant Held For Future Use

Section 2002 requires that property held for future telecommunication use in Account 2002 must be transferred to Account 2006, Non-operating Plant, two years after its inclusion in Account 2002. The Commission must grant a waiver to allow the investment to remain in Account 2002. This accounting requirement was established when ILECs were under rate of return regulation. It is no longer required for price cap companies as the distinction between operating and non-operating plant is no longer relevant to ratemaking. Section 2002 should be eliminated and the ILECs permitted to rely on GAAP guidelines and business needs to determine the accounting for this type investment.

Plant Under Construction

Section 32.2003(b) lists criteria for determining when the costs of construction projects should be recorded in the "under construction" account. The cost of a project estimated to be completed in more than sixty days or estimated to cost more than \$100,000 must be recorded in Account 2003. The cost of projects which will be completed in less than sixty days may be charged directly to the appropriate plant specific account. Costs recorded in Account 2003 are not depreciated, but are subject to an Allowance for Funds Used During Construction calculation, which is included in the cost of the asset. The criteria for inclusion in Account 2003 were established when ILECs were under a rate of return regulation and are not required under price caps. Section 32.2003(b) should be eliminated, and carriers should be permitted to use GAAP and internal control needs to determine the threshold for inclusion in Account 2003.

Carriers often suspend construction projects for six months or more. Section 32.2003 (c) requires that such projects be transferred to Account 2006, Non-operating Plant. This requirement was added when the Commission modified Part 32 to consolidate Accounts, 2003 and 2004 into Account 2003, Telecommunications Plant Under Construction. This requirement produces transfers between these two Accounts 2003 and 2006 that serve no purpose in a price regulation environment because the distinction between operating and non-operating plant is no longer relevant. This requirement in Section 32.2003 (c) should be eliminated.

Expense Limits

Section 32.2000(a)(4) lists criteria for capitalization of the cost of assets. Potential General Support Assets, other than personal computers, that cost less than \$2000 or have a useful life of less than one year, *must* be expensed. The cost threshold for personal computers is \$500. Changes in technology, inflation, and the business environment, have periodically required that the criteria be revised, even under rate of return regulation. Making such changes has required a cumbersome formal rule making process. The ILECs should be permitted to determine when a cost should be capitalized using GAAP and based on evaluation of the cost, benefits, risk, and materiality of the amounts involved. Under price caps there is no purpose served by a mandatory expense threshold limited to certain accounts.

Materiality

Section 32.26 requires that all transactions be recorded whether material or not. In contrast, GAAP always considers materiality in determining those events that must be recognized, recorded, or disclosed. For carriers under price caps, Section 32.26 imposes a burden not borne by competitors. For its financial books, company management is already responsible for evaluation of the costs, benefits and risk of the Company's accounting processes and journalization decisions. In addition, during the annual external audit required by SEC rules, Company CFO's must attest that transactions are recorded under GAAP and that an adequate system of internal controls is in place. Accordingly, Section 32.26 should be eliminated.

4. Eliminate Pre-notification Requirements

Changes in Accounting Standards

Section 32.16 allows adoption of new accounting standards as prescribed by the Financial Accounting Standards Board (FASB) but requires a company to inform the Commission of its intent to adopt the standard and to file a revenue requirement study for the current year and a projection for three additional years. The accounting change is implemented 90 days after the company's notification, unless the Commission notifies the company not to make the change. This process imposes additional administrative costs for the revenue requirement study. In addition, delays in implementing of the standard on the regulatory books creates additional record keeping costs in maintaining different records for GAAP and regulatory books. The extensive FASB evaluation and comment process provides ample opportunity for public airing of issues prior to adoption of a new FAS. Additionally, companies must disclose such changes in their published financial statements and SEC reports 10K and 10Q. On a prospective basis the notice and study requirements in Section 32.16 should be eliminated.

Unusual Items and Contingent Liabilities

Section 32.25 requires that ILECs notify the Commission prior to booking unusual items (extraordinary items and prior period adjustments) and contingent liabilities. With the ample guidance GAAP provides (FAS 5, "Accounting for Contingencies", FAS 16, "Prior Period Adjustments", Statement of Position 94-6, "Contingencies, Risks, and Uncertainties") in each of these areas, there is no need for the application and approval cycle Section 32.25 requires.

PART 32 SIMPLIFICATION ELIMINATE EXPENSE MATRIX REQUIREMENTS

Modify Section 32.5999(f) as follows:

~~(f) Expense Matrix. The expense accounts shall be maintained by the following subsidiary record categories, as appropriate to each account. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.~~

~~_____ (1) Salaries and wages. This subsidiary record category shall include compensation to employees, such as; wages, salaries, commissions, bonuses, incentive awards and termination payments.~~

~~_____ (2) Benefits. This subsidiary record category shall include payroll related benefits on behalf of employees such as the following:~~

~~_____ Pensions
_____ Savings plan contributions (company portion)
_____ Workers compensation required by law
_____ Life, hospital, medical, dental, and vision plan insurance
_____ Social Security and other payroll taxes~~

~~_____ (3) Rents.~~

~~_____ (i) This subsidiary record category shall include amounts paid for the use of personal operating property. Amounts paid for real property shall be included in Account 6121, Land and Buildings Expense. This category includes payments for operating leases but does not include payments for capital leases.~~

~~_____ (ii) This subsidiary record category is applicable only to the Plant Specific Operations Expense accounts. Incidental rents, e.g., short term rental car expense, shall be categorized as Other Expenses (see paragraph (f)(4) of this section) under the account which reflects the function for which the incidental rent was incurred.~~

~~_____ (4) Other expenses. This subsidiary record category shall include costs which cannot be classified to the other subsidiary record categories. Included are material and supplies, including provisioning (note also Account 6512, Provisioning Expense); contracted services; accident and damage payments; insurance premiums; traveling expenses and other miscellaneous costs.~~

~~_____ (5) Clearances. This subsidiary record category shall include amounts transferred to Construction accounts (see § 32.2000 (c)(2)(iii)), or other Plant Specific Operations Expense accounts, and/or Account 3100, Accumulated Depreciation (cost of removal; see § 32.2000(g)(1)(iii)), as appropriate, from Accounts 6112, Motor Vehicle Expense, 6113, Aircraft Expense, 6114, Special Purpose Vehicles Expense, 6116, Other Work Equipment Expense, 6534, Plant Operations Administration Expense, and 6535, Engineering Expense. There shall also be transfers to Construction or other Plant Specific Operations Expense accounts, as appropriate, from Account 6512, Provisioning Expense. With respect to these expenses, companies may establish such clearing accounts as they deem necessary to accomplish substantially the same results, provided that within 30 days of the opening of such accounts, companies shall notify the Commission of the nature and purpose thereof. Additional clearing accounts affecting other expense areas may be established with prior approval of the Commission. Should companies elect, the initial incurred subsidiary record category identification may be carried through to the final accounts without this Commission's approval.~~

PART 32 SIMPLIFICATION
ELIMINATE REQUIREMENTS TO TRANSFER SUSPENDED PROJECTS AND
PROPERTY HELD FOR FUTURE USE TO ACCOUNT 2006

Modify Section 32.2002 as follows:

(a) *This account shall include the original cost of property held with a definite plan for use in telecommunications service.* ~~This account shall include the original cost of property owned and held for no longer than two years under a definite plan for use in telecommunications service. If at the end of two years the property is not in service, the original cost of the property shall be transferred to Account 2006, Nonoperating Plant.~~

(b) ~~Should a carrier desire to retain the property in this account for a period longer than two years, it shall request approval of this Commission. The request should include the property item in question, demonstrate that the waiver is in the public interest, and indicate, as precisely as possible, the additional time required for the property to be held in this account.~~

Modify Section 32.2003 as follows:

(c) ...if a construction project has been suspended for six months or more, *companies shall discontinue capitalization of AFUDC until construction is resumed.* ~~the cost of the project included in this account shall be transferred to account 2006, nonoperating plant, without further direction or approval of this commission. If a project is abandoned, the cost included in this account shall be charged to account 7370, Special Charges.~~

**PART 32 SIMPLIFICATION
ELIMINATE PRE NOTIFICATION REQUIREMENTS**

Modify Sections 32.16, 32.25, 32.26 and 32.2000 as follows:

§ 32.16 Changes in accounting standards.

(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. ~~Commission approval of a change in accounting standard will automatically take effect 90 days after the company informs this Commission of its intention to follow the new standard, unless the Commission notifies the company to the contrary. Concurrent with informing this Commission of its intent to adopt an accounting standards change, the company shall also file a revenue requirement study for the current year and a projection for three years into the future analyzing the effects of the accounting standards change. Furthermore, any change subsequently adopted shall be disclosed in annual reports to this Commission.~~ ***Companies are required to notify the Commission of new accounting standards that will not be adopted on a USOA basis.***

(b) The changes in accounting standards which this Commission approves ~~the carriers adopt~~ will not necessarily be binding on the ratemaking practices of the various state commission.

§ 32.25 Unusual items and contingent liabilities.

Extraordinary items, prior period adjustments and contingent liabilities shall be submitted to this Commission for review before being recorded in the company's books of account ***in accordance with the requirements of GAAP.*** ~~The materiality of corrections of errors in prior periods shall be measured in relation to the summary account level used for reporting purposes for Class A carriers, or in relation to total operating revenues or total operating expenses for Class B carriers. For Class A carriers, no correction in excess of one percent of the aggregate summary account dollars or one million dollars, whichever is higher, may be recorded in current operating accounts without prior approval. For Class B carriers, no correction which exceeds one percent of total operating revenues or one percent of total operating expenses, depending on the nature of the item, may be recorded in current operating accounts without prior approval.~~

**PART 32 SIMPLIFICATION
ADOPT GAAP PRINCIPLE OF MATERIALITY**

§ 32.26 Materiality.

Companies shall follow this system of accounts in recording all financial and statistical data. ~~irrespective of an individual items materiality under GAAP, unless a waiver has been granted under the provisions of § 32.18 of this subpart to do otherwise.~~ *Guidance provided under the GAAP principle of materiality should be followed in recording all transactions.*

PART 32 SIMPLIFICATION
MODIFY Section 32.11 TO ALLOW ALL TELECOMMUNICATIONS CARRIERS TO
USE THE CLASS B CHART OF ACCOUNTS

Modify Section 32.11 as follows:

§32.11 Classification of companies.

(a) For accounting purposes, companies are divided into classes as follows:

(1) Class A. Companies having annual revenues from regulated telecommunications operations of \$100,000,000 or more.

(2) Class B. Companies having annual revenues from regulated telecommunications operations of less than \$100,000,000.

(b) ~~All Class A~~ companies shall keep all the accounts of this system of accounts which are applicable to their affairs and are designated as Class *BA* accounts. ~~Class A~~ These companies shall also keep Basic Property Records in compliance with the requirements of § 32.2000(e) and (f) of Subpart C.

(c) Class B companies shall keep ~~all the accounts of this system of accounts which are applicable to their affairs and are designated as Class B accounts. These companies shall also keep~~ Continuing Property Records in compliance with the requirements of §§ 32.2000(e)(7)(A) and 32.2000(f) of Subpart C.

(d) ~~All Class B~~ companies that desire more detailed accounting may *keep* adopt the accounts prescribed for Class A companies ~~upon the submission of a written notification to the Commission.~~

**PART 32 SIMPLIFICATION
ELIMINATE CRITERIA FOR INCLUDING COST IN ACCOUNT 2003**

Modify Section 32.2003(b) as follows:

(b) *Determination of the construction costs included in this account should be made by management based on GAAP. The length of the construction period and materiality are pertinent factors that should be considered.* ~~There may be charged directly to the appropriate plant accounts the cost of any construction project which is estimated to be completed and ready for service within two months from the date on which the project was begun. There may also be charged directly to the plant accounts the cost of any construction project for which the gross additions to plant are estimated to amount to less than \$100,000.~~

**PART 32 SIMPLIFICATION
ELIMINATE SUBSIDIARY RECORD REQUIREMENTS FOR
NONREGULATED REVENUE**

Modify Section 32.5280(c) as follows:

~~(c) separate subsidiary record categories shall be maintained for each nonregulated revenue item recorded in this account.~~

Part 32 Simplification

Part 32 Reference

Recommended Revision

32.11: Class A & B Chart of Accounts

Eliminate Class A COA Requirement; Class A companies allowed to use Class A or Class B Chart of Accounts.

32.5999(f): Expense Matrix

Eliminate expense matrix requirements.

32.5280(c): Nonregulated Revenue SRCs

Eliminate requirement for separate SRC for each nonregulated item.

Part 32 Simplification

Part 32 Reference

Recommended Revision

Pre-notification Requirements

32.16: Changes in Accounting Standards

Eliminate pre-notification and revenue study requirements, resulting in cost savings and consistency between regulatory and GAAP books.

32.25: Unusual Items and Contingent Liabilities

Eliminate pre-notification requirements.